

**October 2004**

## **UNEMPLOYMENT INSURANCE (UI) FUND FORECAST**

### **Introduction**

This report provides a status of the UI Trust Fund and includes information on the current and projected fund balance, receipts, disbursements, and tax rates.

The national economic downturn that began in late 2001 significantly affected the UI Trust Fund solvency of many states. Beginning in 2002, a number of states, including New York, Texas, Minnesota, Missouri, Illinois, North Carolina, and Massachusetts have all been forced to acquire federal UI Trust Fund loans and/or other financing to continue to provide these necessary benefits to their citizens. California began borrowing in April 2004, in order to continue to pay UI benefits. The entire loan balance was repaid during the high revenue period of May 2004.

The sluggish economy, increased claim duration, and statutory changes in benefit levels that began in 2002, were all contributing factors to a decreasing UI Fund balance. Currently, employers' UI taxes are based on the F "plus" Schedule. This "plus," a 15 percent emergency surcharge, is required by current statute to be initiated when the UI Trust Fund balance dips below specified levels. Projections indicate employers will remain on the F "plus" Schedule in 2005 and 2006.

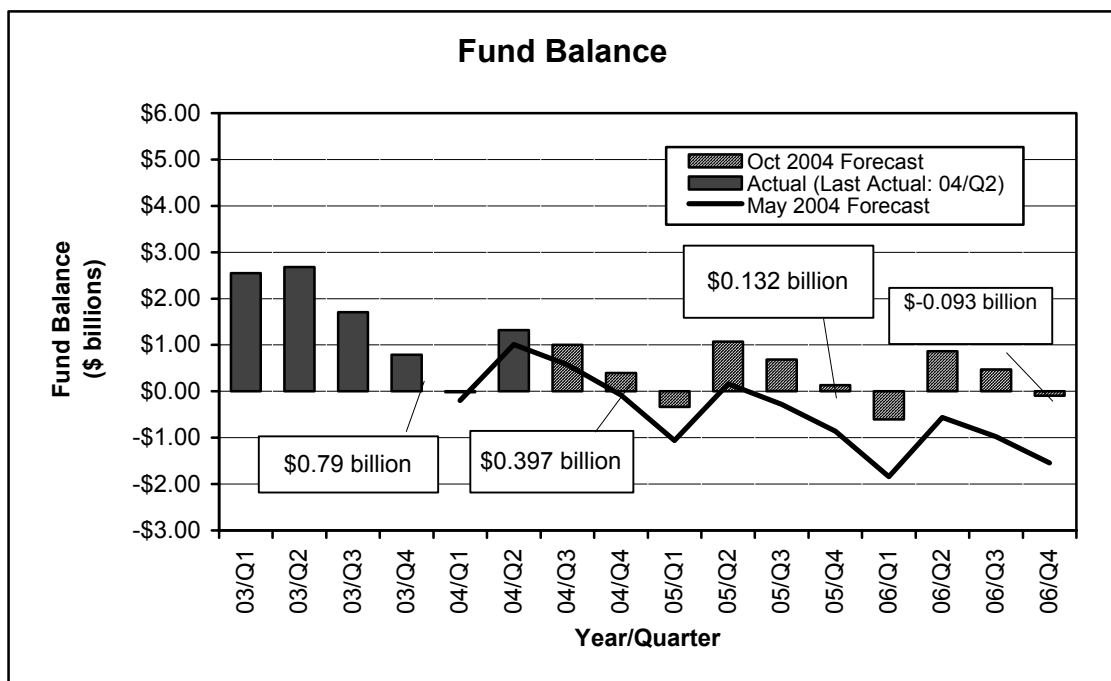
The current forecast shows an improved outlook regarding the condition of the UI Trust Fund when compared to the May 2004 UI Fund Forecast. This is mainly due to the improved economic outlook and decrease in the estimated number of UI initial claims. The UI Fund is projected to have a balance of \$397.3 million at the end of 2004, a balance of \$132.3 million at the end of 2005, and a deficit of \$93.5 million at the end of 2006. Recent data shows that even though there has not been much change in overall employment levels, the number of unemployment claims is decreasing, due to a decrease in layoffs as well as the fact that some unemployment claimants have exhausted their unemployment benefits. This trend has been identified in the economic outlook by the Employment Development Department's Labor Market Information Division (LMID), the Department of Finance, and UCLA's Anderson School of Business. These estimated fund balances will be updated in the May 2005 UI Fund Forecast and could change depending upon actual employment levels, claims filed, and any legislative changes.

## Fund Balance

The UI Fund balance was \$1.3 billion at the end of June 2004. The UI Fund balance is projected to have a balance of \$397.3 million at the end of 2004. The UI Fund balance is estimated to decrease to \$132.3 million at the end of 2005, and to a deficit of \$93.5 million at the end of 2006.

On April 1, 2004, California began borrowing from the federal government to pay Unemployment Insurance (UI) benefits. The entire loan balance was repaid during the high revenue period of May 2004. Based upon this forecast, additional borrowing may be needed during 2005 and 2006.

The chart below shows the projected quarterly UI Fund balance through 2006. These estimated balances could change depending upon actual employment levels and claims filed.

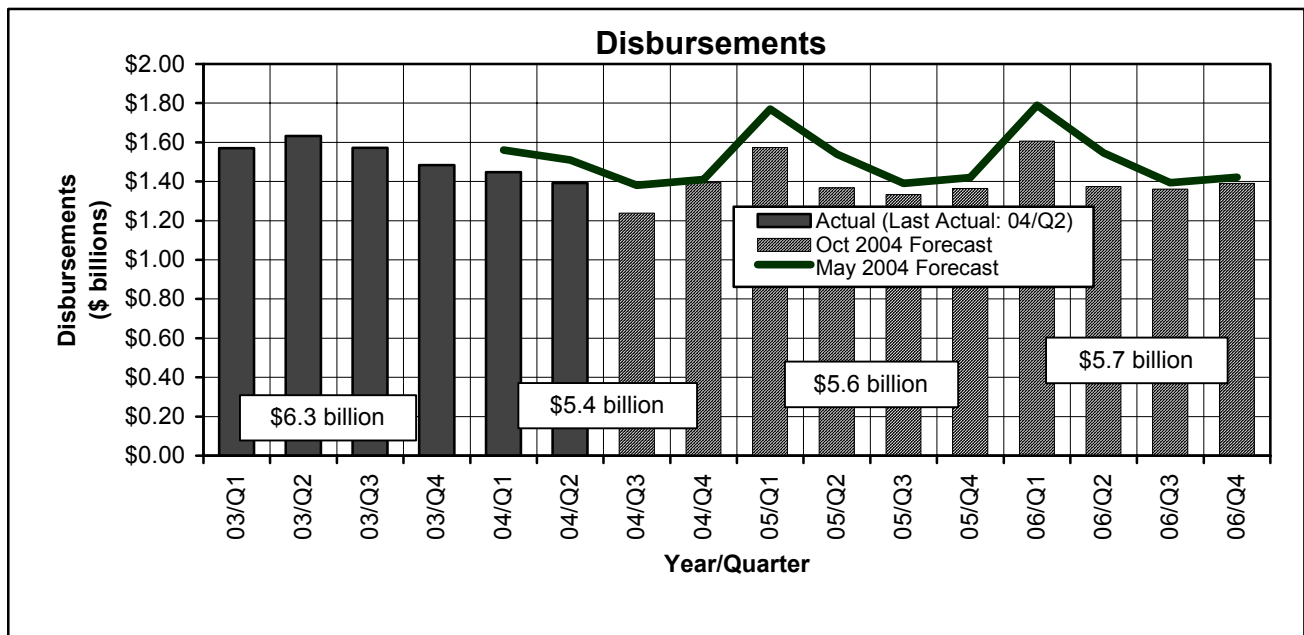


## Disbursements

Total disbursements for 2004 are expected to be \$5.4 billion. This amount includes benefit disbursements of \$5.3 billion and Reed Act disbursements for administration of \$74.1 million. Benefits are projected to be \$5.6 billion in 2005 and \$5.7 billion in 2006. The projected year-over increase in benefit disbursements for 2005 is due to a scheduled increase in the maximum weekly benefit amount from \$410 to \$450 in January 2005, the last scheduled increase required by Senate Bill 40 (Chapter 409, Statutes of 2001). Recent data shows there is a trend towards decreasing unemployment levels and initial claims for UI. The Employment Development Department's Labor Market Information Division, the Department of Finance, and UCLA's Anderson School of Business have identified this trend in their latest economic outlooks.

The 2004 Reed Act disbursements of \$74.1 million include a set aside of \$66.1 million for two UI automation projects. One of these two projects, the Continued Claims Redesign project provides new ways for clients to certify for benefits via the telephone or the Internet. The second project, known as the Call Center Network Platform and Application Upgrade Project, replaces outdated call center platform technology and redesigns the Interactive Voice Response System, increasing the system capacity to handle incoming calls and provide self help information. Both of these projects will improve the Department's ability to detect and prevent fraud.

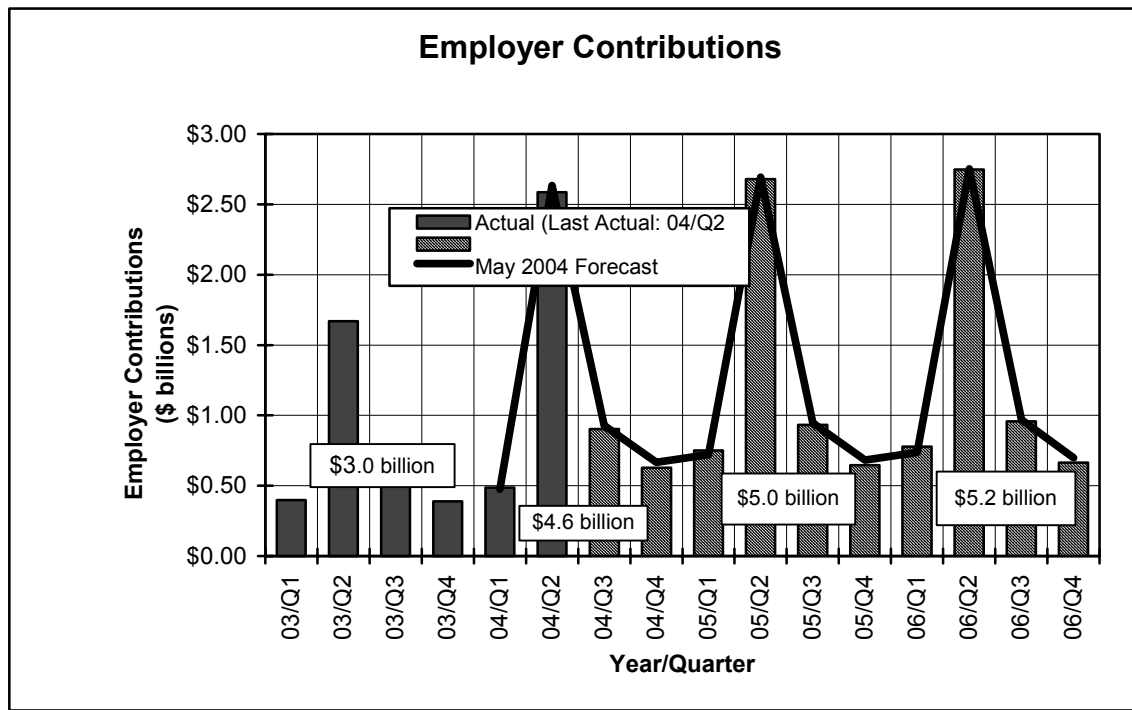
The chart below shows the projected quarterly disbursements through 2006. These estimated disbursements could change depending upon actual claims filed.



## Employer Contributions

Employer tax contributions for 2004 are forecasted at \$4.6 billion. Employer tax contributions are expected to total \$5.0 billion in 2005 and \$5.2 billion in 2006. Employers are on the “F” contribution rate schedule with a 15 percent surcharge in 2004, and expected to stay on this schedule in 2005 and 2006. (Refer to pages A6 and A7 in the Appendix for an explanation of the tax rate schedules.) This projection reflects the latest data available and an updated economic outlook.

The following chart shows the projected quarterly contributions through 2006. These estimated employer contributions could change depending upon actual employment levels.



# APPENDIX

UNEMPLOYMENT INSURANCE FUND  
FORECAST FOR  
CALENDAR YEARS 2004-2006

Table 1  
(Dollars in millions)

Item	2003	2004(F)	2005(F)	2006(F)
YEAR END FUND BALANCE	\$789.5	\$397.3	\$132.3	(\$93.5)
Fund Balance as a Percentage of:				
Receipts	22.6%	7.9%	2.5%	-1.7%
Employer Contributions	26.0%	8.6%	2.6%	-1.8%
Disbursements	12.6%	7.3%	2.3%	-1.6%
RECEIPTS MINUS DISBURSEMENTS	(\$2,767.3)	(\$386.7)	(\$265.0)	(\$225.8)
RECEIPTS	\$3,489.4	\$5,020.6	\$5,375.0	\$5,507.5
Employer Contributions	\$3,036.7	\$4,603.4	\$5,011.6	\$5,145.5
Interest	\$141.3	\$57.1	\$28.5	\$18.7
Reimbursements	\$306.8	\$333.5	\$334.9	\$343.3
Other	\$4.6	\$26.6	(\$0.0)	\$0.0
DISBURSEMENTS	\$6,256.6	\$5,407.3	\$5,640.0	\$5,733.3
Regular benefits	\$6,119.2	\$5,333.2 (a)	\$5,640.0	\$5,733.3
Reed Act Administration	\$137.4	\$74.1 (b)	\$0	\$0
Other	\$0	\$0	\$0	\$0

**(F) Forecast:** Last actual data through second quarter of 2004.

Totals may not be exact due to rounding.

(a) This includes \$714.7 million Reed Act funding for benefit disbursement.

(b) This includes \$66.1 million Reed Act funding set aside for UI automation.

UNEMPLOYMENT INSURANCE FUND  
FORECAST FOR  
CALENDAR YEARS 2004-2006  
Table 2

Item	2003	2004(F)	2005(F)	2006(F)
<b>CLAIM ACTION</b>				
New Claims (a)	2,091,001	<b>1,626,000</b>	<b>1,624,000</b>	<b>1,616,000</b>
First Payments	1,411,881	<b>1,136,000</b>	<b>1,116,000</b>	<b>1,110,000</b>
Weeks Compensated (b)	25,428,377	<b>20,880,000</b>	<b>20,863,000</b>	<b>20,809,000</b>
Average Duration	18.0	<b>18.4</b>	<b>18.7</b>	<b>18.7</b>
Weekly Benefit Amount				
Maximum/Minimum	\$370/\$40	<b>\$410/\$40</b>	<b>\$450/\$40</b>	<b>\$450/\$40</b>
Average (All Claimants)	\$240	<b>\$256</b>	<b>\$270</b>	<b>\$276</b>
<b>COVERED WAGES</b>				
Total Wages(Less Reimbursables)	\$497.5 (bil)	<b>\$521.4 (bil)</b>	<b>\$546.5 (bil)</b>	<b>\$580.2 (bil)</b>
Average Weekly Wage	\$804	<b>\$828</b>	<b>\$852</b>	<b>\$882</b>
Taxable Wages	\$102.6 (bil)	<b>\$104.9 (bil)</b>	<b>\$107.5 (bil)</b>	<b>\$110.2 (bil)</b>
Percent of Total Wages	20.6%	<b>20.1%</b>	<b>19.7%</b>	<b>19.0%</b>
Benefits/Taxable Wages	6.0%	<b>5.1%</b>	<b>5.2%</b>	<b>5.2%</b>
<b>TAXES</b>				
Taxable Wage Ceiling	\$7,000	<b>\$7,000</b>	<b>\$7,000</b>	<b>\$7,000</b>
Tax Schedule	D	<b>F+</b>	<b>F+</b>	<b>F+</b>
Average Tax Rate (c)	3.05%	<b>4.64%</b>	<b>4.69%</b>	<b>4.69%</b>
<b>EMPLOYMENT</b>				
Average Covered Employment	14,570,136	<b>14,887,000</b>	<b>15,175,000</b>	<b>15,880,000</b>
Reimbursables	2,712,424	<b>2,828,000</b>	<b>2,882,000</b>	<b>3,283,000</b>
All Others	11,857,712	<b>12,059,000</b>	<b>12,293,000</b>	<b>12,597,000</b>
Contributions/Employment All Others	\$256	<b>\$382</b>	<b>\$408</b>	<b>\$408</b>
Civilian Unemployment Rate as Projected	6.7%	<b>6.3%</b>	<b>6.1%</b>	<b>5.9%</b>

by Labor Market Information Division

**(F) Forecast:** Last actual data for wages and employment through fourth quarter 2003; Last actual data for all other items through the second quarter 2004.

Totals may not be exact due to rounding.

**(bil)** Billion dollars

(a) This includes intrastate, interstate liable, and transitional claims.

(b) This does not include Temporary Extended Unemployment Compensation.

(c) The Average Tax Rate is calculated based on contributions from April - March each year. This varies from the average contribution rate reported to the Department of Labor that is calculated based on calendar year contributions.

## **UNEMPLOYMENT INSURANCE (UI) DEFINITIONS**

The definitions below are informational only and arranged in the order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

### **Year End Fund Balance**

Fund Balance:

The sum of all money remaining in the Unemployment Fund at the end of the year after all receipts and disbursements have been recorded but before the unamortized balance invested in capital assets is recorded.

### **Receipts**

Receipts:

This includes all income to the Unemployment Fund. Receipt items are on an “as received” basis rather than on an “as earned” basis.

Employer Contributions:

Taxes paid by an employer based on a contribution rate derived from the Experience Rating System. This system determines each individual employer’s contribution rate based on the employer’s employment experience and the condition of the UI Trust Fund. New employers are required to pay a rate of 3.4 percent for up to three years. (See Taxes on page A4.)

Interest:

Income produced by investing a portion of the Unemployment Fund. This investment is done by the federal government and California has no discretion in investment decisions.

Reimbursements:

Amounts received from employers (nonprofit organizations, state and local governments) required to reimburse the Unemployment Fund for benefits paid to their former employees.



## Receipts Cont'd

### Other Receipts:

Includes receipts from miscellaneous adjustments such as insurance checks reverted.

## **Disbursements**

### Disbursements:

All money paid from the Unemployment Fund.

### Regular Benefits:

Disbursements made to UI claimants under the authority of Division 1, Part 1, of the CUIC. This includes only benefits paid under the California UI program from the UI Trust Fund. Regular benefits paid from the Federal Unemployment Benefit Account, which is separate from the California UI Trust Fund, including Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Persons (UCX) programs or any combination of these programs are excluded. Benefits paid under extended benefit programs are also excluded.

UI: A state program that provides benefits to individuals covered under state and federal unemployment compensation laws.

UCFE: The federal program of unemployment compensation for federal employees.

UCX: The federal program of unemployment compensation for ex-service personnel.

### Reed Act Administration:

Includes administrative expenditures of Reed Act monies.

### Other Disbursements:

Includes expenditures for miscellaneous adjustments such as Board of Control claims.

## **Claim Actions**

New Claim:

An application for determination of eligibility for benefits, weekly amount, and award which certifies either the beginning of a first period of unemployment within a benefit year, or the continuance of a period of unemployment into a new benefit year.

First Payment:

The first benefit payment made to a claimant in his/her benefit year.

Weeks Compensated:

The total number of weeks of unemployment for which regular benefits are paid.

Average Duration:

The number of weeks of benefits paid divided by the first payments.

Maximum Weekly Benefit Amount (WBA)/Minimum WBA:

The maximum and minimum WBAs payable under Section 1280 of the CUIA. Senate Bill (SB) 40 (Chapter 409, Statutes of 2001) increased the maximum weekly benefit amount from \$230 in 2001 to \$330 in 2002, to \$370 in 2003, to \$410 in 2004, and will increase the maximum weekly benefit amount to \$450 in 2005. SB 40 also increased the wage replacement rate from 39 percent in 2001 to 45 percent in 2002 and to 50 percent in 2003 and after. The minimum weekly benefit amount remains at \$40.

Average Weekly Benefit Amount (AWBA):

For all claimants, regular benefits divided by the number of weeks compensated including full, partial, and part-total weekly benefit amounts results in the AWBA.

## **Covered Wages**

Total Wages:

All remuneration payable to employees subject to the CUIA for personal services, including tips and gratuities received by workers.

Average Weekly Wage:

Total wages less reimbursable wages divided by average covered employment less reimbursable employment divided by 52.2 weeks.

## **Covered Wages Cont'd**

### **Taxable Wages:**

Portion of total wages subject to taxation under Section 930 of the CUIA. (See Taxes on page A4.)

### **Percent of Total Wages:**

The ratio of taxable wages divided by total wages, expressed as a percentage.

### **Benefits/Taxable Wages:**

The ratio of benefit expenditures to taxable wages. (Reimbursables excluded.)

## **Taxes**

### **Taxable Wage Ceiling**

The maximum remuneration paid to an individual by an employer during a calendar year which is subject to Section 930 of the CUIA. The taxable wage ceiling is set by state law. The current ceiling is \$7,000.

### **Tax Schedule:**

Per Section 977 of the CUIA, the Unemployment Insurance tax schedule for the following calendar year is determined by the ratio of the Unemployment Fund balance on September 30 of the prior calendar year to total covered wages paid for the prior completed state fiscal year.

Unemployment Insurance Trust Fund Balance (September 30)  
Total UI Covered Wages (July 1 – June 30)

<u>If the ratio is</u>	<u>Use schedule</u>
Greater than 1.8%	AA
From 1.8% to more than 1.6%	A
From 1.6% to more than 1.4%	B
From 1.4% to more than 1.2%	C
From 1.2% to more than 1.0%	D
From 1.0% to more than 0.8%	E
From 0.8% to more than 0.6%	F
Below 0.6%	F schedule plus 15%

Contribution Rate Schedules:

Line	Reserve Ratio			Contribution Rate Schedules							
	Column 1		Column 2	AA	A	B	C	D	E	F	F + 15%
01	less than		-20	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2
02	-20 to		-18	5.2	5.3	5.4	5.4	5.4	5.4	5.4	6.2
03	-18 to		-16	5.1	5.2	5.4	5.4	5.4	5.4	5.4	6.2
04	-16 to		-14	5.0	5.1	5.3	5.4	5.4	5.4	5.4	6.2
05	-14 to		-12	4.9	5.0	5.3	5.4	5.4	5.4	5.4	6.2
06	-12 to		-11	4.8	4.9	5.2	5.4	5.4	5.4	5.4	6.2
07	-11 to		-10	4.7	4.8	5.1	5.3	5.4	5.4	5.4	6.2
08	-10 to		-09	4.6	4.7	5.1	5.3	5.4	5.4	5.4	6.2
09	-09 to		-08	4.5	4.6	4.9	5.2	5.4	5.4	5.4	6.2
10	-08 to		-07	4.4	4.5	4.8	5.1	5.3	5.4	5.4	6.2
11	-07 to		-06	4.3	4.4	4.7	5.0	5.3	5.4	5.4	6.2
12	-06 to		-05	4.2	4.3	4.6	4.9	5.2	5.4	5.4	6.2
13	-05 to		-04	4.1	4.2	4.5	4.8	5.1	5.3	5.4	6.2
14	-04 to		-03	4.0	4.1	4.4	4.7	5.0	5.3	5.4	6.2
15	-03 to		-02	3.9	4.0	4.3	4.6	4.9	5.2	5.4	6.2
16	-02 to		-01	3.8	3.9	4.2	4.5	4.8	5.1	5.4	6.2
17	-01 to		00	3.7	3.8	4.1	4.4	4.7	5.0	5.4	6.2
18	00 to		01	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.9
19	01 to		02	3.2	3.4	3.7	4.0	4.3	4.6	4.9	5.6
20	02 to		03	3.0	3.2	3.5	3.8	4.1	4.4	4.7	5.4
21	03 to		04	2.8	3.0	3.3	3.6	3.9	4.2	4.5	5.2
22	04 to		05	2.6	2.8	3.1	3.4	3.7	4.0	4.3	4.9
23	05 to		06	2.4	2.6	2.9	3.2	3.5	3.8	4.1	4.7
24	06 to		07	2.2	2.4	2.7	3.0	3.3	3.6	3.9	4.5
25	07 to		08	2.0	2.2	2.5	2.8	3.1	3.4	3.7	4.3
26	08 to		09	1.8	2.0	2.3	2.6	2.9	3.2	3.5	4.0
27	09 to		10	1.6	1.8	2.1	2.4	2.7	3.0	3.3	3.8
28	10 to		11	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.6
29	11 to		12	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.3
30	12 to		13	1.0	1.2	1.5	1.8	2.1	2.4	2.7	3.1
31	13 to		14	0.8	1.0	1.3	1.6	1.9	2.2	2.5	2.9
32	14 to		15	0.7	0.9	1.1	1.4	1.7	2.0	2.3	2.6
33	15 to		16	0.6	0.8	1.0	1.2	1.5	1.8	2.1	2.4
34	16 to		17	0.5	0.7	0.9	1.1	1.3	1.6	1.9	2.2
35	17 to		18	0.4	0.6	0.8	1.0	1.2	1.4	1.7	2.0
36	18 to		19	0.3	0.5	0.7	0.9	1.1	1.3	1.5	1.7
37	19 to		20	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6
38	20 or more			0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.5

## Tax Schedule Cont'd

### Average Tax Rate:

The average of the rates assigned to all employers at the beginning of the year.

### **Employment**

#### Average Covered Employment:

The monthly average of the number of workers who earned wages in employment subject to the unemployment compensation provisions of the CUIIC.

#### Reimbursables:

The average number of workers whose employers reimburse the Unemployment Fund (dollar for dollar) for all benefit payments that are attributed to their employment and wages.

#### All Others:

The average number of workers whose employers are subject to the regular unemployment tax.

#### Contributions/Employment All Others:

All employer contributions divided by the average covered employment, which excludes reimbursables, provides an average cost per nonreimbursable employee.

#### Civilian Unemployment Rate:

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.